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## ***Major rate hikes, reliability issues threaten NW power system; The region must cut energy use now to hold down costs***

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### **Bonneville Power Administration**

**FOR IMMEDIATE RELEASE: MONDAY, April 09, 2001**

PR 23 01

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**PORTLAND, Ore.** –The region's federal electricity system is headed for wholesale rate increases of 250 percent or more after Oct. 1 unless its customers—the region's retail utilities and large industrial customers—make commitments to reduce energy use within the next 60 days, the Bonneville Power Administration warned Monday.

In January BPA said wholesale rates could rise 60 percent on average for the next five years beginning Oct. 1, 2001, and potentially 95 percent in the first year. Circumstances have gotten worse since then.

"Recent developments in the market now require a first-year increase of 250 percent or more, absent vigorous efforts to reduce demand," said Steve Wright, acting BPA administrator. "This could double the retail rates of many Northwest consumers."

Wright said an increase of this magnitude would have major economic consequences: "Already some businesses have closed and people are out of work due to high energy costs. Such an increase portends vast economic troubles – more businesses closing their doors and more lost jobs. Those with lower incomes would suffer disproportionately."

The drought is leaving the region short of electricity this summer and winter, which could pose reliability problems but, longer term, an underlying energy shortage threatens high costs and difficulties in meeting demand for several years until new power plants, power lines and conservation can be brought on line. Wholesale market prices for power purchases next year have risen dramatically since January.

Wright said BPA is about 2,500 megawatts short of meeting all the demand of its customers on Oct. 1, when new power sales contracts take effect. So BPA must purchase power on the market, where prices have exploded from \$25 per megawatt-hour to \$300 in just over one year.

Wright went on to say BPA and the region have two choices. BPA can ask each of its customers for difficult but manageable load reductions, which would result in much lower rate increases and more stable rates. Or BPA can go into the market and attempt to buy the necessary power and raise rates to cover the costs. Wright said, "Asking for some load reduction from each customer, though difficult, looks like a better choice for the region than over-relying on the market."

Wright described the following actions that BPA would ask from each of its customer groups:

1. Publicly owned utilities should cut their purchases from BPA by 5-10 percent. This can be done through retail rate incentives as well as, focused conservation and load-buyback programs.
2. Investor-owned utilities should make a parallel commitment. Radical increases in market rates have vastly expanded the value obtained by these utilities under a formula in new contracts signed with BPA. As a result, the utilities are in a position to forgo or defer some of this value and thereby reduce economic impacts on the region.
3. It is highly likely that most aluminum plants will find it uneconomical to resume operation for one to two years, until market prices for electricity stabilize. Wright urged those companies to agree now to stay offline for up to two years, so that BPA does not have to buy power to cover the possibility that they could resume operation in October. Wright said that it is not BPA's intent to drive the aluminum industry out of the region. Rather, the plants should resume operations when the power situation stabilizes. During the downtime, BPA would provide funding for employee compensation to minimize impacts on local communities.
4. Wright also joined with the Northwest governors and other regional utilities in a continuing plea for citizens to conserve energy. "This crisis is very real. Saving energy will not only help keep the lights on, but it also is the best way to save on power bills and help save the environment at the same time," he said.

Wright cited the woes in California, noting that the crisis in that state has taught some very important lessons. "We can learn from California's problems and seek to avoid them. We need to do everything we can to avoid power purchases in this incredibly expensive market, and we also need to make sure we set our rates high enough so we can cover our costs to assure generators get paid when they deliver power so that we don't put our credit at risk.

"We must seize control of our destiny. If everyone in the region pulls together, we can keep the electricity flowing and our rates down. But if we don't act now, very large rate increases are virtually unavoidable."

He cautioned that BPA must raise rates enough to pay its obligations to the U.S. Treasury on money borrowed to build the federal power system.

"There are those in Congress who see our current weakness as an opportunity to deprive the region of the future benefits of Columbia River hydropower," said Wright. "Failure to pay our debts would only further their cause, with potentially disastrous future consequences to the region."

"It must be remembered that the core of the federal power system that serves the Northwest is very low-cost and reliable," Wright said. "It is the cost of purchasing power on the open market that is driving the size of this rate increase. As the market price decreases, BPA's need for additional revenue will also decrease."

Commitments to take action to reduce the size of the rate increase are needed within the next 60 days. This will allow time for BPA to submit its new rates to the Federal Energy Regulatory Commission for approval and to purchase power necessary to serve load beginning October 1.

BPA's proposed rates will go into effect beginning October 1. Those rates include an adjustment clause that will vary every six months, depending on the amount of power BPA has to buy and the market

price. Forecasts of market prices anticipate lower costs in future years as the region's supply and demand come into better balance.

Wright also called on the region to make infrastructure investments, such as upgrading power lines, which can more rapidly bring supply and demand into balance and thereby lead to lower wholesale power costs. Infrastructure investments are the long-term solution, Wright said

BPA is a not-for-profit federal agency. BPA is required by law to pass through all its power costs to its electric utility and direct service industrial customers.

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